

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Southern California Edison Company (U-338-E) for Authorization: (1) to Replace San Onofre Nuclear Generating Station Unit Nos. 2 & 3 (SONGS 2 & 3) Steam Generators; (2) Establish Ratemaking for Cost Recovery; and (3) Address Other Related Steam Generator Replacement Issues.

Application 04-02-026
(Filed February 27, 2004)

**ASSIGNED COMMISSIONER AND
ADMINISTRATIVE LAW JUDGE'S RULING
DENYING REQUEST FOR A DECISION AUTHORIZING
ESTABLISHMENT OF A MEMORANDUM ACCOUNT**

In its application, Southern California Edison Company (SCE) requested that a decision be issued by August 2004, authorizing establishment of a memorandum account to record, for rate recovery, costs related to replacement steam generator fabrication up to \$50 million.¹ In other words, SCE is seeking advance approval of recovery of incurred costs related to fabrication of the replacement steam generators if the Commission decides that the steam generator replacement project (SGRP) should not proceed.

SCE acknowledges that it is not barred from seeking after-the-fact recovery of incurred costs if the Commission does not subsequently approve the project. However, it represents that the risk should be borne by ratepayers who would

¹ Total project basis.

benefit from preservation of SCE's ability to proceed with the SGRP as planned if it is approved. SCE also argues that granting its request does not prejudice the application.

Traditionally, a utility builds a project, and then requests its inclusion in rate base. Whether it is included in rate base depends on the need for the project. If it is needed, then the reasonable costs of construction are included. To determine the need for the project and the reasonable costs, the utility's actions and expenditures are evaluated based on the information that could and should have been available to the utility at the time the project was constructed.

In this application, SCE is proposing to construct the SGRP, and is requesting approval of the reasonableness of the SGRP in advance of actual construction. It is also requesting that the Commission set a cost for the SGRP that will carry with it a presumption of reasonableness. Entering into contracts related to replacement steam generator fabrication is one of the first steps in the SGRP. The information provided in its application is represented to be the information upon which SCE is basing its proposal to proceed with the SGRP, and to enter into the contracts. Despite this representation, it is not a given that all information that SCE could and should have in order for it to make these decisions, or for the Commission to give its approval, is included in the application.

SCE seems to divorce the reasonableness of its proposal to enter into the contracts from the reasonableness of the SGRP as a whole. There may be information that was not included in the application that is relevant to the consideration of the reasonableness of entering into the contracts. To this end, it is important to develop a record that includes, as much as possible, all such information. This means that other parties must be allowed to perform their own

investigations, and to present what they believe to be relevant information at hearings. The only difference between consideration of entering into the contracts as opposed to consideration of the reasonableness of the SGRP as a whole, is that the information to be considered regarding the contracts is limited to the information SCE could and should have had prior to entering into them. This limitation does not apply to consideration of the reasonableness of the SGRP as a whole in this proceeding.

If the Commission were to approve entering into the contracts at this time, it would be acting without a full record on which to base its decision. SCE proposes to enter into the contracts in August 2004. Evidentiary hearings on the SGRP are scheduled to begin in late January 2005. As a result, there is not likely to be a significant difference in the amount of information to be considered regarding the contracts versus the SGRP as a whole. Therefore, the most expeditious way to complete consideration of entering into the contracts is to proceed with hearings on the SGRP as currently scheduled.

Therefore, **IT IS RULED** that:

1. The request of Southern California Company (SCE) for an order authorizing it to establish a memorandum account to record, for rate recovery, costs associated with replacement steam generator fabrication up to \$50 million, is denied.

2. Nothing in this ruling prevents SCE from entering into contracts related to replacement steam generator fabrication, or applying for recovery of costs incurred, including cancellation related costs, if the need arises.

Dated July 6, 2004, at San Francisco, California.

/s/ GEOFFREY F. BROWN

Geoffrey F. Brown
Assigned Commissioner

/s/ JEFFREY P. O'DONNELL

Jeffrey P. O'Donnell
Administrative Law Judge

CERTIFICATE OF SERVICE

I certify that I have by mail this day served a true copy of the original attached Assigned Commissioner and Administrative Law Judge's Ruling Denying Request for a Decision Authorizing Establishment of a Memorandum Account on all parties of record in this proceeding or their attorneys of record.

Dated July 6, 2004, at San Francisco, California.

/s/ FANNIE SID

Fannie Sid

N O T I C E

Parties should notify the Process Office, Public Utilities Commission, 505 Van Ness Avenue, Room 2000, San Francisco, CA 94102, of any change of address to insure that they continue to receive documents. You must indicate the proceeding number on the service list on which your name appears.